GLEACHER & COMPANY, INC.
Form 10-Q
May 10, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x	**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended March 31, 2012

- or -

o	**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from to

Commission file number 014140

GLEACHER & COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**22-2655804**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1290 Avenue of the Americas, New York, New York	**10104**

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code **(212) 273-7100**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o	Accelerated Filer x
Non-accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

127,182,189 shares of Common Stock were outstanding as of the close of business on April 30, 2012

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GLEACHER & COMPANY, INC. AND SUBSIDIARIES

FORM 10-Q

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GLEACHER & COMPANY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

Part I Financial Information

Item 1. Financial Statements

(In thousands, except for per share amounts)	Three Months Ended March 31, 2012		2011	
Revenues:				
Principal transactions	$	21,320	$	45,341
Commissions		19,151		18,459
Investment banking		6,678		10,322
Investment gains/(losses), net		132		(686)
Interest income		19,204		15,068
Gain from bargain purchase ClearPoint Funding, Inc. acquisition (Refer to Note 11)				2,330
Fees and other		2,877		1,124
Total revenues		69,362		91,958
Interest expense		4,619		2,569
Net revenues		64,743		89,389
Expenses (excluding interest):				
Compensation and benefits		43,719		59,088
Clearing, settlement and brokerage		12,993		4,787
Communications and data processing		3,319		3,215
Occupancy, depreciation and amortization		2,134		1,912
Business development		1,018		1,525
Other		6,842		4,134
Total expenses (excluding interest)		70,025		74,661
(Loss)/income from continuing operations before income taxes and discontinued operations		(5,282)		14,728
Income tax (benefit)/expense		(566)		6,129
(Loss)/income from continuing operations		(4,716)		8,599
Income/(loss) from discontinued operations, net of taxes (Refer to Note 24)		32		(1,394)
Net (loss)/income	$	(4,684)	$	7,205
Per share data:				
Basic loss per share				
Continuing operations	$	(0.04)	$	0.07
Discontinued operations		(0.00)		(0.01)
Net loss per share	$	(0.04)	$	0.06
Diluted loss per share				
Continuing operations	$	(0.04)	$	0.07
Discontinued operations		(0.00)		(0.01)
Net loss per share	$	(0.04)	$	0.06
Weighted average shares of common stock:				

Basic	119,510	123,564
Dilutive	119,510	130,766

The accompanying notes are an integral part

of these consolidated financial statements.

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GLEACHER & COMPANY, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

(In thousands of dollars, except for share and per share amounts)		**March 31, 2012**		**December 31, 2011**
Assets				
Cash and cash equivalents	$	32,688	$	36,672
Cash and securities segregated for regulatory and other purposes		2,000		9,612
Securities purchased under agreements to resell		2,984,884		1,523,227
Receivables from:				
Brokers, dealers and clearing organizations		89,834		58,776
Related parties		1,337		1,337
Others		15,364		16,161
Financial instruments owned, at fair value (includes financial instruments pledged of $1,456,154 and $1,553,610 at March 31, 2012 and December 31, 2011, respectively)		1,457,273		1,554,660
Investments		18,440		18,310
Office equipment and leasehold improvements, net		6,608		6,735
Goodwill		21,096		21,096
Intangible assets		4,187		4,311
Income taxes receivable		9,094		12,102
Deferred tax assets, net		27,193		30,766
Other assets		9,843		9,791
Total Assets	$	4,679,841	$	3,303,556
Liabilities and Stockholders Equity				
Liabilities				
Payables to:				
Brokers, dealers and clearing organizations	$	1,054,028	$	1,108,664
Related parties		4,956		4,939
Others		3,773		3,243
Securities sold under agreements to repurchase		2,979,606		1,478,081
Securities sold, but not yet purchased, at fair value		233,499		184,996
Secured borrowings		117,195		213,611
Accrued compensation		10,596		26,274
Accounts payable and accrued expenses		13,562		18,223
Income taxes payable		4,082		3,979
Deferred tax liabilities		1,746		1,622
Subordinated debt		801		801
Total Liabilities		4,423,844		3,044,433
Commitments and Contingencies (Refer to Note 16)				
Stockholders Equity				
Common stock; $.01 par value; authorized 200,000,000 shares, issued 133,769,219 and 133,714,786 shares; and outstanding 127,072,570 and 120,883,601 shares, at March 31, 2012 and December 31, 2011, respectively		1,337		1,337
Additional paid-in capital		455,540		463,497
Deferred compensation		161		161
Accumulated deficit		(190,571)		(185,887)

Treasury stock, at cost (6,696,649 shares and 12,831,185 shares, at March 31, 2012 and December 31, 2011, respectively)		(10,470)		(19,985)
Total Stockholders Equity		255,997		259,123
Total Liabilities and Stockholders Equity	$	4,679,841	$	3,303,556

The accompanying notes are an integral part

of these consolidated financial statements.

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GLEACHER & COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands of dollars)	**Three Months Ended March 31, 2012**	**2011**
Cash flows from operating activities:		
Net (loss)/income	$ (4,684)	$ 7,205
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Amortization of stock-based compensation	4,497	5,221
Deferred income taxes	3,697	5,586
Depreciation and amortization	487	475
Investment losses/(gains), net	(132)	686
Amortization of intangible assets	124	794
Gain from bargain purchase ClearPoint Funding, Inc. acquisition		(2,330)
Changes in operating assets and liabilities:		
Cash and securities segregated for regulatory purposes	7,612	(400)
Securities purchased under agreements to resell	(1,461,657)	(74,624)
Net receivable/payable from/to related parties		451
Net receivable from others	1,327	5,088
Financial instruments owned, at fair value	97,387	(104,255)
Income taxes receivable/payable, net	2,725	(807)
Other assets		1,434
Net payable to brokers, dealers and clearing organizations	(85,694)	129,669
Securities sold under agreements to repurchase	1,501,525	35,636
Securities sold, but not yet purchased, at fair value	48,503	32,545
Accounts payable and accrued expenses	(4,964)	(1,926)
Accrued compensation	(15,835)	(38,999)
Drafts payable	269	(744)
Net cash provided by operating activities	95,187	705
Cash flows from investing activities:		
ClearPoint acquisition net cash acquired (Refer to Note 11)		626
Purchases of office equipment and leasehold improvements	(360)	(535)
Return of capital investments		515
Net cash (used in) provided by investing activities	(360)	606
Cash flows from financing activities:		
Proceeds from secured borrowings	583,000	161,612
Repayments of secured borrowings	(679,416)	(157,474)
Purchases of treasury stock		(5,803)
Payment for employee tax withholdings on stock-based compensation	(2,403)	(5,041)
Excess tax benefits related to stock-based compensation	8	202
Net cash used in financing activities	(98,811)	(6,504)
Decrease in cash and cash equivalents	(3,984)	(5,193)
Cash and cash equivalents at beginning of the period	36,672	40,009
Cash and cash equivalents at the end of the period	$ 32,688	$ 34,816

NON CASH INVESTING AND FINANCING ACTIVITIES

During the three months ended March 31, 2012 and 2011, the Company issued approximately 6.9 million and 0.4 million shares out of treasury stock, net of forfeitures, respectively, for stock-based compensation exercises and vesting.

During the three months ended March 31, 2012 and 2011, the Company issued approximately 0.1 million and 2.3 million, respectively, shares of common stock for settlement of stock-based compensation awards.

The fair value of non-cash assets acquired and liabilities assumed in the ClearPoint Funding, Inc. acquisition on January 3, 2011 were $51.6 million and $49.9 million, respectively (Refer to Note 11).

The accompanying notes are an integral part

of these consolidated financial statements.

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Organization and Nature of Business

Gleacher & Company, Inc. (the Parent and together with its subsidiaries, the Company) is an independent investment bank that provides corporate and institutional clients with strategic and financial advisory services, including merger and acquisition, restructuring, recapitalization, and strategic alternative analysis. The Company also provides capital raising, research-based investment analysis, and securities brokerage services, and, through the Company s ClearPoint Funding, Inc. subsidiary (ClearPoint), engages in residential mortgage lending. The Company offers a diverse range of products through its Investment Banking, Mortgage Backed/Asset Backed & Rates (MBS/ABS & Rates), Corporate Credit and ClearPoint divisions. The Company is incorporated under the laws of the State of Delaware. The Company s common stock is traded on the NASDAQ Global Market (NASDAQ) under the symbol GLCH.

Policies and Presentation

The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements prepared in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could be different from these estimates. In the opinion of management, all normal, recurring adjustments necessary for a fair statement of this interim financial information are contained in the accompanying consolidated financial statements. The results for any interim period are not necessarily indicative of those for the full year.

The accompanying consolidated financial statements are presented in accordance with the U.S. Securities and Exchange Commission (SEC) requirements for Quarterly Reports on Form 10-Q and are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted. Reference should be made to the Company s audited consolidated financial statements and notes within the Company s Annual Report on Form 10-K for the year ended December 31, 2011 for additional information, including a summary of the Company s significant accounting policies.

Reclassification

Certain amounts in prior periods have been reclassified to conform to the current year presentation with no impact to previously reported net income or stockholders equity. This includes the prior period results of the Equities division, which is now being reported as discontinued operations. Refer to Note 24 herein for additional information. In addition, revenues earned on a riskless principal basis in the amount of $18.1 million for the three months ended March 31, 2011 have been reclassified from principal transactions to commission income in order to distinguish such revenues (commission equivalents) from revenues earned on financial instruments held in inventory.

GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11 Disclosures about Offsetting Assets and Liabilities (ASU 2011-11), which requires new disclosures about balance sheet offsetting and related arrangements. For derivative financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to offsetting requirements but not offset in the balance sheet. This guidance is effective for annual reporting periods beginning on or after January 1, 2013 and is to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset, and since these amended principles require only additional disclosures, the adoption of ASU 2011-11 will not affect the Company s financial condition, results of operations or cash flows.

In September 2011, the FASB issued ASU No. 2011-08 Intangibles Goodwill and Other: Testing Goodwill for Impairment (ASU 2011-08), in order to simplify how entities test goodwill for impairment. ASU 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in FASB Topic 350. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of ASU 2011-08 did not have a material impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05), in order to improve the comparability, consistency, and transparency of financial reporting and to increase prominence of items reported in other comprehensive income. The amendments in this ASU include the requirement that all non-owner changes in stockholders equity be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements, and eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, except for new presentation requirements about reclassification of items out of accumulated other comprehensive income which are currently deferred indefinitely. ASU 2011-05 is not applicable to the Company as it has no items reported as other comprehensive income.

In May 2011, the FASB issued ASU No. 2011-04 Fair Value Measurements: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (ASU 2011-04), in order to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (IFRS). The amendments in this ASU include clarification of (i) the application of the highest and best use valuation premise concepts and specifies that such concepts are relevant only when measuring the fair value of nonfinancial assets, (ii) the requirement to measure certain instruments classified in stockholders equity at fair value, such as equity interests issued as consideration in a business combination and (iii) disclosure requirements regarding quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. In addition, ASU 2011-04 changes particular principles or requirements for measuring fair value or for disclosing information about fair value measurements, including (a) measuring the fair value of financial instruments that are managed within a portfolio by permitting entities to measure such financial instruments on a net basis if such entities manage such financial instruments on the basis of their net exposure, (b) clarifying that premiums or discounts related to size as a characteristic of the reporting entity s holding (specifically, a blockage factor) rather than as a characteristic of the asset or liability (for example, a control premium) are not permitted in a fair value measurement and (c) the

expansion of disclosures about fair value measurements, including the valuation processes of financial instruments categorized within Level 3 of the fair value hierarchy and sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the Company s consolidated financial statements. Refer to Note 8 which includes the disclosures as required by this ASU.

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(Unaudited)

In April 2011, the FASB issued ASU No. 2011-03 Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements (ASU 2011-03), in order to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this ASU remove from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The adoption of ASU 2011-03 did not have a material impact on the Company s consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28), in order to address questions about entities with reporting units with zero or negative carrying amounts as some entities concluded that Step 1 of the test is passed in those circumstances because the fair value of their reporting unit will generally be greater than zero. For reporting units with zero or negative carrying amounts, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists, taking into consideration any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2010-28 did not have a material impact on the Company s consolidated financial statements.

2. *(Loss)/Earnings Per Common Share*

The Company calculates its basic and diluted (loss)/earnings per share in accordance with ASC 260, Earnings Per Share. Basic (loss)/earnings per share is computed based upon weighted-average shares outstanding during the period. Dilutive (loss)/earnings per share is computed consistently with the basic computation while giving effect to all dilutive potential common shares and common share equivalents that were outstanding during the period. The Company uses the treasury stock method to reflect the potential dilutive effect of unvested stock awards, warrants, and unexercised options. The weighted average shares outstanding were calculated as follows:

	Three Months Ended March 31,	
(In thousands)	**2012**	**2011**
Weighted average shares for basic (loss)/earnings per share	119,510	123,564
Effect of dilutive common share equivalents		7,202
Weighted average shares and dilutive common share equivalents for dilutive (loss)/earnings per share	119,510	130,766

For the three months ended March 31, 2012, the Company was in a net loss position and therefore excluded approximately 10.1 million of shares underlying stock options and warrants, 9.2 million of shares of restricted stock, and 4.9 million of shares underlying restricted stock units (RSUs) from its computation of dilutive loss per share because they were anti-dilutive. For the three months ended March 31, 2011, the Company excluded approximately 5.8 million of shares underlying stock options and warrants, 3.3 million of shares of restricted stock and 0.2

million of shares underlying RSUs from its computation of dilutive earnings per share because they were anti-dilutive.

3. Cash and Cash Equivalents

The Company has defined cash equivalents as highly liquid investments, with original maturities of less than 90 days that are not segregated for regulatory purposes or held for sale in the ordinary course of business. At March 31, 2012 and December 31, 2011, cash equivalents were approximately $2.9 million and $10.3 million, respectively. Cash and cash equivalents of approximately $16.0 million and $18.4 million at March 31, 2012 and December 31, 2011, respectively, were held at one financial institution.

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

4. *Cash and Securities Segregated for Regulatory and Other Purposes*

In November 2010, Gleacher & Company Securities, Inc. (Gleacher Securities) began self-clearing its trading activities in U.S. government securities (the Rates business) and is therefore subject to the Customer Protection rules under Rule 15c3-3 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). At March 31, 2012 and December 31, 2011, the Company segregated cash of $1.0 million and $4.0 million respectively, in a special reserve bank account for the exclusive benefit of customers pertaining to the results of the activities of the Company s Rates business and outstanding checks issued to customers and vendors when the Company was previously conducting self-clearing in prior years.

Cash segregated also includes $1.0 million of cash on deposit in connection with ClearPoint s secured borrowings at March 31, 2012 and December 31, 2011.

At December 31, 2011, cash segregated also included approximately $4.6 million of cash received in connection with a working capital loan agreement between an unaffiliated borrower and certain lenders. In connection with this agreement, a wholly-owned subsidiary of the Company, acting as agent, has a commitment to pay funding advances on behalf of the lenders with respect to any unfunded commitments drawn upon by the borrower under the working capital loan agreement. An equal and offsetting liability is recorded within Accounts payable and accrued expenses within the Consolidated Statement of Financial Condition.

5. *Resale and Repurchase Agreements*

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 for a detailed discussion of accounting policies related to the Company s resale and repurchase agreements.

At March 31, 2012 and December 31, 2011, the fair value of financial instruments received as collateral by the Company that it was permitted to deliver or repledge in connection with resale agreements was approximately $3.1 billion and $1.5 billion, respectively, substantially all of which was repledged in the form of repurchase agreements at March 31, 2011 and December 31, 2011.

The following tables provide detail on the composition of the outstanding repurchase agreements at March 31, 2012 and December 31, 2011:

	March 31, 2012					
(In thousands)	Overnight	< 30 days	30-90 days	> 90 days	On Demand	Total
Collateral Type						
U.S. Government and federal agency obligations	$ 1,527,562	$ 450,000	$ 550,000	$	$ 452,044	$ 2,979,606

	December 31, 2011					
(In thousands)	Overnight	< 30 days	30-90 days	> 90 days	On Demand	Total
Collateral Type						
U.S. Government and federal agency obligations	$ 1,204,641	$	$	$	$ 273,440	$ 1,478,081

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Receivables from and Payables to Brokers, Dealers, and Clearing Organizations

Amounts receivable from and payable to brokers, dealers and clearing organizations consists of the following:

(In thousands)	**March 31, 2012**	**December 31, 2011**
Fails to deliver	$ 68,715	$ 24,654
Deposits with clearing organizations	18,081	16,467
Receivable from clearing organizations	2,942	2,950
Underwriting and syndicate fees receivable	96	
Receivable for unsettled trading activities		14,705
Total receivables	$ 89,834	$ 58,776
Payable to clearing organizations	930,682	1,093,518
Fails to receive	99,492	15,146
Payable for unsettled trading activities	23,854	
Total payables	$ 1,054,028	$ 1,108,664

Included within deposits with clearing organizations at March 31, 2012 and December 31, 2011 is a deposit with the Fixed Income Clearing Corporation (FICC) of approximately $17.3 million and $15.2 million, respectively, related to the Company s self clearing activities associated with the Rates business.

Securities transactions are recorded on their trade date. The related amounts receivable and payable for unsettled securities transactions are recorded net, by clearing organization, in Receivables from or Payables to brokers, dealers and clearing organizations in the Consolidated Statements of Financial Condition.

The clearing organizations may re-hypothecate all securities held on behalf of the Company.

7. Receivables from and Payables to Others

Amounts Receivable from and Payable to Others consist of the following:

(In thousands of dollars)		March 31, 2012		December 31, 2011
Interest receivable	$	6,363	$	7,250
Principal paydowns Agency mortgage-backed securities		3,901		4,468
Investment banking and advisory fees receivable		1,201		1,713
Receivable from customers		1,092		
Loans and advances		332		280
Management fees receivable		163		140
Others		2,312		2,310
Total receivables from others	$	15,364	$	16,161
Payable to employees for the Employee Investment Funds (Refer to Note 10)	$	947	$	972
Customer deposits held in escrow ClearPoint		801		849
Draft payables		404		135
Others		1,621		1,287
Total payables to others	$	3,773	$	3,243

The Company maintains a group of zero balance bank accounts which are included in Payable to others on the Consolidated Statements of Financial Condition. Drafts payable represent the balance in these accounts related to outstanding checks that have not yet been presented for payment at the bank. The Company has sufficient funds on deposit to clear these checks, and these funds will be transferred to the zero-balance accounts upon presentment.

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

8. Financial Instruments

Refer to Note 1 within the footnotes to the consolidated financial statements contained within Item 8 of the Company s Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of accounting policies related to the Company s financial instruments & investments, loans and derivative financial instruments.

The Company s financial instruments are recorded within the Consolidated Statements of Financial Condition at fair value. ASC 820 defines fair value as the price that would be received upon the sale of an asset or paid upon the transfer of a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date and establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1: Quoted prices in active markets that the Company has the ability to access at the reporting date, for identical assets or liabilities.

Level 2: Directly or indirectly observable prices in active markets for similar assets or liabilities; quoted prices for identical or similar items in markets that are not active; inputs other than quoted prices (e.g., interest rates, yield curves, credit risks, volatilities); or market corroborated inputs.

Level 3: Unobservable inputs that reflect management s own assumptions about the assumptions market participants would make.

** Prices are not adjusted for the effects, if any, of the Company holding a large block relative to the overall trading volume (referred to as a blockage factor).

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In

such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

ASC 820 also provides (i) general guidance on determining fair value when markets are inactive including the use of judgment in determining whether a transaction in a dislocated market represents fair value, the inclusion of market participant risk adjustments when an entity significantly adjusts observable market data based on unobservable inputs, and the degree of reliance to be placed on broker quotes or pricing services as well as (ii) additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly declined and guidance on identifying circumstances that indicate a transaction is not orderly.

Fair Valuation Methodology

Cash Equivalents These financial assets represent cash in banks or cash invested in highly liquid investments with original maturities less than 90 days that are not segregated for regulatory purposes or held for sale in the ordinary course of business. These investments are valued at par, which represent fair value, and are considered Level 1. Refer to Note 3 Cash and Cash Equivalents for additional information.

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Financial Instruments Owned/Securities Sold But Not Yet Purchased These financial instruments primarily consist of investments in fixed income securities, as well as holdings in equity securities. The Company has no exposure to European sovereign debt.

Level 1 Cash Instruments

Level 1 cash instruments include U.S. government obligations and actively traded listed preferred stock and equity securities (if not subject to legal restriction on transfer). These instruments are generally traded in active, quoted and highly liquid markets.

Level 2 Cash Instruments

Level 2 cash instruments include agency mortgage-backed securities, federal agency obligations, mortgage loans originated by ClearPoint for which the fair value option (FVO) has been elected and certain preferred stock, asset-backed and non-agency mortgage-backed securities.

In determining fair value for Level 2 financial instruments, management considers recent purchases or sales of the financial assets, benchmark securities and yields, recently executed market transactions of comparable size, issuer spreads and bids/offers. Fair value for ClearPoint s loans is determined utilizing observable market factors and is principally based upon the fair value of the to-be-announced (TBA) forward securities market (Refer to Derivatives below).

Level 3 Cash Instruments

Level 3 cash instruments primarily include non-agency commercial and residential mortgage backed securities positions. In determining fair value for Level 3 financial instruments, management maximizes the use of market observable information when available. Management considers factors such as recent purchases or sales of the financial assets, bids that were received, and various benchmarking techniques, including spread comparisons to other similar financial assets recently traded, or spreads to observable factors such as yield curves. Management considers its valuation methodologies consistent with assumptions in how other market participants value certain financial assets.

Level 3 cash instruments also includes the Company s investment in FA Technology Ventures, L.P. (FATV or the Partnership), further described below.

Derivatives These financial instruments primarily consist of TBAs, forward sales and interest rate lock commitments (IRLCs).

TBAs and forward sales: In connection with mortgage-backed and U.S. government securities trading, and the mortgage lending activities of ClearPoint, the Company economically hedges certain exposures through the use of TBAs and forward sale agreements. A TBA is a forward mortgage-backed security whose collateral remains to-be-announced until just prior to the trade settlement. Forward sale agreements are entered into by ClearPoint and are valued based upon the TBA. TBAs are traded in an active quoted market and therefore generally classified as Level 1.

IRLCs: The Company enters into mortgage loan IRLCs in connection with its mortgage lending activities. The fair value of the IRLCs are determined on an individual loan basis and are based on investor pricing tables stratified by product, note rate and term and considers the servicing release premium, expected loan origination fees and costs and loan pricing adjustments specific to each loan. The Company also applies an estimated rate of closure based on historical experience in determining the notional amount of the loans expected to be funded. All of these factors combined results in the classification of the IRLCs as Level 3.

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Investments These financial assets primarily represent the Company s investment in FATV, a venture capital limited partnership which provides early stage growth capital to companies in the information and new energy technology sectors. Valuation techniques applied by FATV GP LLC (the General Partner) to the underlying portfolio companies predominantly include consideration of comparable market transactions and the use of valuation models to determine the discounted value of estimated future cash flows, adjusted as appropriate for market and/or other risk factors. In addition, from time to time, FATV holds equity securities in public companies which are valued based upon quoted market prices. This investment is classified as Level 3 as the majority of the valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments complexity.

Valuation Processes and Controls

Our sales and trading professionals in our revenue producing units are responsible for pricing our financial instruments. The Company employs an independent control process in order to validate these prices. This control process, which involves both the Company s risk management and finance personnel, is designed to ensure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

Fair value is generally determined through a variety of factors, such as recent purchases or sales of the financial assets, bids that were received, and various benchmarking techniques, including spread comparisons to other similar assets recently traded or spreads to other observable factors such as yield curves. The Company s independent control process includes leveraging pricing information obtained from external data providers to assess the reasonableness of its marks, generally for the Company s most highly liquid financial instruments, as this data tends to be generally reliable for positions that are actively traded. For the Company s less liquid financial instruments, the Company s independent control process includes comparing month-end marks to recent trading activity, benchmarking price changes to observable market indices, reviewing benchmarking techniques, analyzing external pricing data for trends and qualitatively assessing changes in the collateral underlying certain structured products, principally our commercial mortgage-backed securities positions. These independent procedures are critical to ensuring our financial instruments are properly valued.

Fair Value Hierarchy

The following table summarizes the categorization of the financial instruments within the fair value hierarchy including those for which the Company accounts for under the FVO, at March 31, 2012:

	Assets at Fair Value			
(In thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**

Financial instruments owned							
Agency mortgage-backed securities	$		$	832,485	$	362	$	832,847
Federal agency obligations				369,550				369,550
Loans				147,448				147,448
Residential mortgage-backed securities				8,386		26,603		34,989
Commercial mortgage-backed securities				1,347		27,850		29,197
Corporate debt securities				21,125				21,125
Preferred stock		14,645						14,645
U.S. government obligations		4,607						4,607
Equity securities		974				103		1,077
Collateralized debt obligations						585		585
Other debt obligations						318		318
Derivatives (1)						885		885
Investments						18,440		18,440
Total financial assets at fair value	$	20,226	$	1,380,341	$	75,146	$	1,475,713

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	Liabilities at Fair Value			
(In thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities sold but not yet purchased				
U.S. Government obligations	$ 228,907	$	$	$ 228,907
Equity securities	2			2
Corporate debt securities		4,086		4,086
Preferred stock	50			50
Derivatives (1)	454			454
Total financial liabilities at fair value	$ 229,413	$ 4,086	$	$ 233,499

(1) Unrealized gains/(losses) relating to derivatives are reported in Securities owned and Securities sold, but not yet purchased, at fair value in the Consolidated Statements of Financial Condition.

Included below is a discussion of the characteristics of the Company s Level 2 and Level 3 holdings at March 31, 2012. Unless otherwise stated, fair value of Level 2 assets are determined based upon observable third party information including recent trading activity, broker quotes and other relevant market data as noted above. Fair value for Level 3 assets are based predominantly on management s own assumptions about the assumptions market participants would make.

Financial Instruments Classified as Level 2

The Company s agency mortgage-backed securities positions classified as Level 2, of approximately $832.5 million, have a weighted average loan size of approximately $0.2 million paying interest of 5.9%, with a weighted average FICO score of 702. This portfolio has a weighted average coupon remitting payment of 5.0% and has a weighted average annualized constant prepayment rate of approximately 18.0%. Fair value is determined through a combination of matrix pricing as well as the information noted in the preceding paragraph.

The Company s net Level 2 U.S. Government and federal agency obligations of approximately $369.6 million have a weighted average coupon of 1.7% and a weighted average maturity of 2018.

The Company s Level 2 loans of approximately $147.4 million (unpaid principal of approximately $143.7 million), which are related to the mortgage lending activities of ClearPoint and for which the FVO has been elected, have a weighted average loan size of approximately $0.2 million and has a weighted average coupon remitting payment of 3.9%. Unrealized losses arising from fair value changes of approximately $0.8 million have been recorded within Principal transactions within the Consolidated Statements of Operations as of March 31, 2012. There are no loans 90 days or more past due and no loans are in non-accrual status. The loans are underwritten using standards prescribed by conventional mortgage lenders and loan buyers such as the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

The Company s net holdings of corporate debt securities classified as Level 2 of approximately $17.0 million have a weighted average credit rating of B, have a weighted average issuance year of 2006 and a weighted average maturity of 2021.

The Company s Level 2 non-agency residential mortgage backed securities of approximately $8.4 million are primarily senior tranches, have a weighted average credit rating of BB, and have experienced on average, a weighted average default rate of 4.7% and 49% severity.

The Company s Level 2 commercial mortgage backed securities of approximately $1.3 million are primarily mezzanine, have a weighted average credit rating of B and a weighted average issuance year of 2006.

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Financial Instruments Classified as Level 3

Non-Agency Residential Mortgage Backed Securities Disclosure About Significant Unobservable Inputs

The Company s Level 3 non-agency residential mortgage backed securities of approximately $26.6 million are primarily senior tranches, have a weighted average credit rating of CC, and have experienced on average, a weighted average default rate of 8.4% and 53.9% severity.

Valuation Technique	Fair Value at March 31, 2012	Unobservable Input	Range (Weighted Average)
Benchmarking techniques	$ 26,603(1)	Offer price	$9.50-$100.03 ($40.83)

(1) Market value determined through benchmarking valuation techniques including spread and price comparisons to similar financial assets, consideration for changes in relevant market indices in general and recent trading activity. Includes $16.5 million of financial instruments purchased within 30 days of March 31, 2012.

Commercial Mortgage Backed Securities Disclosure About Significant Unobservable Inputs

The Company s Level 3 commercial mortgage backed securities of approximately $27.9 million are primarily mezzanine, have a weighted average credit rating of BBB and a weighted average issuance year of 2006.

Valuation Technique	Fair Value at March 31, 2012	Unobservable Input	Range (Weighted Average)
Benchmarking techniques	$ 27,850(1)	Offer price	$8.64-$113.00 ($46.86)

(1) Market value principally determined through benchmarking to spreads offered on similar financial assets, determined based upon the expected performance of the underlying collateral. Includes $5.0 million of financial instruments purchased within 30 days of March 31, 2012.

Interest Rate Lock Commitments   Disclosure About Significant Unobservable Inputs

IRLCs are reported as derivatives and are classified Level 3. The significant unobservable input is ClearPoint s estimated rate of closure of 80.2%, representing the percentage of ClearPoint s loan commitments expected to fund, which is based on historical experience. A reduction in this unobservable input would result in a lower fair value for these financial instruments.

Refer to Note 9 for additional information.

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Investments   Quantitative Disclosure About Significant Unobservable Inputs

The Company s investments of approximately $18.4 million classified as Level 3, includes the Company s investment in FATV of approximately $16.0 million. Refer to Note 10 for additional information.

Valuation Technique	Unobservable Input	Range (Weighted Average)
Market comparable companies	Enterprise value/Revenue multiple	1.0x 8.8x (6.1x)
	EBITA multiple	18.3x - 20.3x (19.3x)
	Discount applied to multiples	0% - 80% (34%)
Discounted future exit value	Revenue multiple	5.0x
	EBITA multiple	8.5x
	Discount applied to multiples	30% - 50% (37%)

An increase in the enterprise value/revenue, EBITA and revenue multiples would result in a higher fair value for these investments, whereas, an increase in the discounts applied to these multiples would reduce fair value.

Nonrecurring Fair Value Measurements   Quantitative Disclosure About Significant Unobservable Inputs

The Company s assets measured at fair value on a nonrecurring basis solely relate to Goodwill arising from various business combinations which would be classified as Level 3 within the fair value hierarchy. Refer to Note 12 for additional information.

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The following table summarizes the categorization of the financial instruments within the fair value hierarchy including those for which the Company accounts for under the FVO at December 31, 2011:

	Assets at Fair Value			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments owned				
Agency mortgage-backed securities	$	$ 1,084,254	$ 1,367	$ 1,085,621
Loans		228,226		228,226
Federal agency obligations		158,774		158,774
Commercial mortgage-backed securities			38,154	38,154
Residential mortgage-backed securities			18,419	18,419
Corporate debt securities		14,524		14,524
U.S. Government obligations	5,789			5,789
Preferred stock	316		1,301	1,617
Equity securities	889		112	1,001
Collateralized debt obligations			647	647
Other debt obligations			192	192
Derivatives			1,696	1,696
Investments			18,310	18,310
Total financial assets at fair value	$ 6,994	$ 1,485,778	$ 80,198	$ 1,572,970

	Liabilities at Fair Value			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities sold but not yet purchased				
U.S. Government and federal agency obligations	$ 158,059	$	$	$ 158,059
Corporate debt securities		12,254		12,254
Federal agency obligations		11,796		11,796
Preferred stock	184		730	914
Equity securities	2			2
Derivatives	1,971			1,971
Total financial liabilities at fair value	$ 160,216	$ 24,050	$ 730	$ 184,996

The Company reviews its financial instrument classification on a quarterly basis. As the observability and strength of valuation attributes change, reclassifications of certain financial assets or liabilities may occur between levels. The Company s policy is to utilize an end-of-period convention for determining transfers in or out of Levels 1, 2 and 3. During the three months ended March 31, 2011, there were no transfers between Levels 1 and 2.

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The following table summarizes the changes in the Company s Level 3 financial instruments for the three months ended March 31, 2012:

(In thousands)	Balance at December 31, 2011	Total gains or (losses) (realized and unrealized) (1)	Purchases	Sales	Settlements	Transfers in and/or out of Level 3(2)	Balance at March 31, 2012	Changes in unrealized gains/(losses) on Level 3 assets still held at the reporting date (1)
Commercial mortgage-backed securities	$ 38,154	$ (3,505)	$ 14,845	$ (20,163)	$ (134)	$ (1,347)	$ 27,850	$ (3,019)
Residential mortgage-backed securities	18,419	(548)	26,529	(16,156)	(682)	(959)	26,603	(32)
Other debt obligations	192	3	3,254	(3,131)			318	(2)
Agency mortgage-backed securities	1,367	(68)	295	(1,232)			362	(60)
Collateralized debt obligations	647	(62)					585	(61)
Equities	112	(9)					103	(10)
Preferred stock	571	106	682	(1,359)				
Investments	18,310	132			(2)		18,440	325
Derivatives	1,696	885			(1,696)		885	885
Total	$ 79,468	$ (3,066)	$ 45,605	$ (42,041)	$ (2,514)	$ (2,306)	$ 75,146	$ (1,974)

(1) Realized and unrealized gains/(losses) are reported in Principal transactions in the Consolidated Statements of Operations.

(2) During the three months ended March 31, 2012, the Company transferred approximately $1.3 million of commercial mortgage backed securities and approximately $1.0 million of residential mortgage-backed securities from Level 3 to Level 2 due to price discovery resulting from Company trading activity occurring in close proximity to March 31, 2012.

The following table summarizes the changes in the Company s Level 3 financial instruments for the three months ended March 31, 2011:

(In thousands)	Balance at December 31,	Total gains or (losses)	Purchases	Sales	Settlements	Transfers in and/or out of	Balance at March 31,	Changes in unrealized

	2010	(realized and unrealized) (1)				Level 3	2011	gains/(losses) on Level 3 assets still held at the reporting date (1)
Commercial mortgage-backed securities	$ 46,571	$ 14,602	$ 88,321	$ (81,192)	$ (55)	$	$ 68,247	$ 1,661
Residential mortgage-backed securities	33,604		15,574	(15,248)	(1,545)		32.385	(290)
Other debt obligations	5,843	(10)	10,367	(6,563)	(82)		9,555	9
Agency mortgage-backed securities	806	(53)	3,157	(1,480)			2.430	125
Collateralized debt obligations	23,235	10,579	9,139	(35,292)	(526)		7,135	(508)
Equities	60						60	
Investments	18,084	(686)			(515)		16,883	(636)
Derivatives		685					685	685
Total	$ 128,203	$ 25,117	$ 126,558	$ (139,775)	$ (2,723)	$	$ 137,380	$ 1,046

(1) Realized and unrealized gains/(losses) are reported in Principal transactions in the Consolidated Statements of Operations.

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9. Derivatives

The Company utilizes derivatives for various economic hedging strategies to actively manage its market and liquidity exposures. In addition, the Company enters into mortgage loan IRLCs in connection with its mortgage lending activities. The following table summarizes the Company s derivative instruments as of March 31, 2012 and December 30, 2011:

	March 31, 2012			December 31, 2011		
(In thousands)	**Number of Contracts**	**Notional**	**Fair Value**	**Number of Contracts**	**Notional**	**Fair Value**
Purchase Contracts						
TBA purchase agreements		$	$	1	$ 589	$
U.S. treasury futures contracts						
IRLCs	667	109,288	885	708	127,227	1,696
Total	667	109,288	$ 885	709	$ 127,816	$ 1,696
Sale Contracts						
TBA sale agreements	19	$ 342,500	$ (467)	17	$ 371,000	$ (1,183)
Forward sale agreements	1	5,000	13	11	120,900	(788)
U.S. treasury futures contracts						
Total	20	$ 347,500	$ (454)	28	$ 491,900	$ (1,971)

Total losses associated with these activities, which are recorded within Principal transactions within the Consolidated Statements of Operations were $1.5 million and $3.0 million, for the three months ended March 31, 2012 and 2011, respectively.

10. Investments

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policies related to the Company s investments included within the policy titled Financial Instruments and Investments and Note 8 herein for additional information regarding valuation techniques and inputs related to the Company s investment in FATV. The Company s investment portfolio includes interests in publicly and privately held companies and private equity securities. Information regarding these investments has been aggregated and is presented below.

(In thousands of dollars)	**March 31, 2012**	**December 31, 2011**
Fair Value		
Investment in FATV	$ 16,018	$ 15,863

Employee Investment Funds, net of Company s ownership interest		1,222		1,247
Other investment		1,200		1,200
Total Investments	$	18,440	$	18,310

Investment gains and losses are comprised of the following:

	Three Months Ended March 31,			
(In thousands of dollars)	**2012**		**2011**	
Investments (realized and unrealized gains/(losses))	$	132	$	(686)

The Company has an investment in FATV of approximately $16.0 million and approximately $15.9 million at March 31, 2012 and December 31, 2011, respectively. FATV s primary purpose is to provide investment returns consistent with the risk of investing in venture capital. FA Technology Ventures Corporation, a wholly-owned

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subsidiary of the Company, is the investment advisor to FATV. There are no material open commitments to fund this portfolio at March 31, 2012. At March 31, 2012 and December 31, 2011, total Partnership capital for all investors in FATV equaled $64.7 million and $63.7 million, respectively. The Partnership was scheduled to end in July 2011, subject to extension by the vote of a majority of the limited partners, as provided in the limited partnership agreement applicable to the Partnership (the Partnership Agreement). The term of the Partnership was extended for one year pursuant to such provision and is now scheduled to terminate on July 19, 2012. Although the term may be again extended for another one-year period under the Partnership Agreement, the Company currently expects the Partnership to terminate on such date. The Partnership is considered a variable interest entity. The Company is not the primary beneficiary, due to other investors level of investment in the Partnership. Accordingly, the Company has not consolidated the Partnership in these consolidated financial statements, but has only recorded the fair value of its investment, which also represented the Company s maximum exposure to loss in the Partnership at March 31, 2012 and December 31, 2011. The Company s share of management fee income derived from the Partnership for the three months ended March 31, 2012 and 2011 were $0.2 million and $0.2 million, respectively.

The Employee Investment Funds (EIF) are limited liability companies, established by the Company for the purpose of having select employees invest in private equity securities. The EIF is managed by Broadpoint Management Corp., a wholly-owned subsidiary of the Company, which has contracted with FATV to act as an investment advisor with respect to funds invested in parallel with the Partnership. The Company has consolidated EIF resulting in approximately $1.2 million and $1.2 million of Investments and a corresponding Payable to others being recorded in the Consolidated Statements of Financial Condition as of March 31, 2012 and December 31, 2011, respectively. Management fees are not material.

Other investment is an investment in a privately held company.

11. Business Combinations

ClearPoint Funding, Inc. Acquisition

On January 3, 2011, the Company completed its acquisition of ClearPoint. Pursuant to the related Stock Purchase Agreement, a newly formed subsidiary of the Company, Descap Mortgage Funding, LLC (Descap LLC), paid approximately $0.3 million of cash as transaction consideration for all of the issued and outstanding shares of capital stock of ClearPoint. Descap LLC is also obligated to pay the former stockholder of ClearPoint no more than approximately $2.0 million payable in installments on the first, second and third anniversaries of the closing date, contingent upon the continued employment of the former stockholder and certain indemnification matters. The Company recorded a bargain purchase gain of approximately $2.3 million, as the majority of the consideration payable to the former stockholder will be recognized as compensation expense for future services. Therefore, no goodwill was recognized.

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The ClearPoint acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The following condensed statement of net assets acquired reflects the value assigned to ClearPoint s net assets as of the acquisition date:

Condensed Statement of Net Asset Acquired

(In thousands)		**January 3, 2011**
Assets		
Cash and cash equivalents	$	876
Loans		45,726
Derivative assets		1,117
Intangible assets*		803
Other assets		3,994
Total assets acquired	$	52,516
Liabilities		
Secured borrowings	$	44,339
Accrued expenses and other liabilities		5,597
Total liabilities assumed	$	49,936
Net assets acquired	$	2,580

*Consists primarily of customer relationships with an estimated useful life of 8 years.

Pro forma information for the three months ended March 31, 2011 has not been provided given the proximity of the acquisition date to the beginning of the prior year. Refer to Note 25 herein for additional information regarding ClearPoint s financial information.

12. Goodwill and Intangible Assets

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policy related to goodwill and intangible assets.

Goodwill

The Company has designated its annual goodwill impairment testing dates for its MBS/ABS & Rates and Investment Banking reporting units to be December 31, and June 1, respectively. The fair value of the MBS/ABS & Rates reporting unit exceeded its carrying value by approximately 70% as of December 31, 2011. The goodwill assigned to the Investment Banking reporting unit was written down to its fair value during the year ended December 31, 2011.

(In thousands of dollars)	Reporting Unit MBS/ABS &Rates	Reporting Unit Investment Banking	Total
Goodwill			
Balance at December 31, 2011	$ 17,364	$ 3,732	$ 21,096
Increases/(decreases)			
Balance at March 31, 2012	$ 17,364	$ 3,732	$ 21,096

The Company considered a combination of the market and income approaches to determine fair value of its reporting units. Key assumptions utilized in the market approach included the use of multiples of earnings before interest and taxes and earnings before interest, taxes, depreciation and amortization based upon available comparable company market data. The income approach, which is a discounted cash flow analysis, utilized a discount rate which included an estimated cost of debt and cost of equity and capital structure.

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There is a degree of uncertainty associated with the key assumptions utilized within the annual goodwill impairment tests. The discounted cash flow assumptions included an estimated growth rate which may not be indicative of actual future results. In addition, a downturn in the market may widen credit spreads resulting in a larger discount rate being utilized in the discounted cash flow analysis and could also have an adverse effect on the market multiples of our guideline companies. Such uncertainties may cause varying results in future periods.

The Company continues to monitor its market capitalization in relation to its book value for purposes of determining whether its remaining goodwill should be impaired. The goodwill is at risk of future impairment to the extent the Company s market capitalization remains significantly below its book value for an extended period of time.

Intangible Assets

(In thousands)		**March 31, 2012**		**December 31, 2011**
Intangible assets (amortizable):				
MBS/ABS & Rates Customer relationships				
Gross carrying amount	$	641	$	641
Accumulated amortization		(423)		(410)
Net carrying amount		218		231
Corporate Credit - Customer relationships				
Gross carrying amount		795		795
Accumulated amortization		(650)		(610)
Net carrying amount		145		185
Investment Banking Trade name				
Gross carrying amount		7,300		7,300
Accumulated amortization		(919)		(874)
Impairment of intangible asset September 1, 2011		(3,234)		(3,234)
Net carrying amount		3,147		3,192
ClearPoint Customer relationships				
Gross carrying amount		803		803
Accumulated amortization		(126)		(100)
Net carrying amount		677		703
Total Intangible assets	$	4,187	$	4,311

Customer-related intangible assets are being amortized from 3 to 12 years and trademark assets are being amortized over 20 years (with approximately 17 years remaining). Total amortization expense recorded within Other in the Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011 was approximately $0.1 million and $0.8 million, respectively.

Future amortization expense is estimated as follows:

(In thousands)		
2012 (remaining)	$	372
2013		364
2014		337
2015		337
2016		301
Thereafter		2,476
Total	$	4,187

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13. Office Equipment and Leasehold Improvements

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policy related to office equipment and leasehold improvements.

Office equipment and leasehold improvements consist of the following:

(In thousands of dollars)	**March 31, 2012**	**December 31, 2011**
Communications and data processing equipment	$ 5,131	$ 4,968
Furniture and fixtures	3,281	3,251
Leasehold improvements	1,793	1,766
Software	832	692
Total	11,037	10,677
Less: accumulated depreciation and amortization	(4,429)	(3,942)
Total office equipment and leasehold improvements, net	$ 6,608	$ 6,735

Depreciation and amortization expense for the three months ended March 31, 2012 and 2011 was $0.5 million and $0.5 million, respectively.

14. Other Assets

Other assets consist of the following:

(In thousands of dollars)	**March 31, 2012**	**December 31, 2011**
Collateral deposits	$ 5,180	$ 5,180
Prepaid expenses	2,850	2,959
Other	1,813	1,652
Total other assets	$ 9,843	$ 9,791

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15. Secured Borrowings

Pursuant to certain master repurchase agreements, ClearPoint was extended secured mortgage warehouse lines of credit in order to fund mortgage originations. These lines of credit carry floating rates of interest and are collateralized by ClearPoint s mortgage loans.

(In thousands of dollars)		**March 31, 2012**		**December 31, 2011**	
Description	**Current Year Expiration Date**	**Facility Limit**	**Outstanding Balance**	**Facility Limit**	**Outstanding Balance**
Credit Facility No. 1	April 1, 2012	$	$ 13,137	$ 75,000	$ 68,756
Credit Facility No. 2	September 11, 2012	75,000	47,158	75,000	49,704
Credit Facility No. 3	September 5, 2012	100,000(1)	55,723	100,000	92,802
		$ 175,000(2)	$ 116,018	$ 250,000(2)	$ 211,262
Accelerated Purchase Facility	N/A		1,177	50,000	2,349
Total		$ 175,000	$ 117,195	$ 300,000	$ 213,611

(1) Effective April 30, 2012, warehouse capacity was reduced to $75.0 million. This line can be terminated at will by the lender on 90-days notice.

(2) Committed capacity under the facilities is $0.0 million and $100 million as of March 31, 2012 and December 31, 2011, respectively.

The lender to Credit Facility No. 1 and the Accelerated Purchase Facility elected not to renew Credit Facility No. 1 and instead agreed to a 120-day extension. As of April 30, 2012, all amounts advanced under the credit facility were paid in full and, pursuant to an amendment to the master repurchase agreement, the warehouse covenants are no longer in force and ClearPoint has no further continuing reporting or notice obligations to this lender.

If ClearPoint does not sell loans it originates from funds advanced under ClearPoint s mortgage warehouse lines of credit to investors within certain periods of time, the lenders can incrementally curtail, or reduce, such advances. Under these circumstances, ClearPoint would be required to repay the curtailed amounts to the lenders prior to receiving any proceeds from the sale of the loan to an investor.

ClearPoint is required, among other things, to comply with certain financial covenants, including maintaining (i) a minimum tangible net worth, (ii) a maximum leverage ratio, (iii) certain levels of profits/losses, and (iv) a minimum level of liquid assets. If ClearPoint fails to comply with these covenants, the lenders could declare the credit lines to be in default and require the payment of all amounts then outstanding under the lines. Also, the applicable agreements contain cross default provisions, so that a default under one agreement triggers a default under the others.

The Company previously disclosed within Notes 15 and 29 contained within Item 8 of the Company s Annual Report on Form 10-K for the year ended December 31, 2011, notices of default (along with simultaneous waivers) of certain of ClearPoint s financial covenants relating to ClearPoint s liquidity from October 2011 to March 2012 and certain levels of profits/losses in February 2012.

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As noted above, ClearPoint is required to achieve certain profitability levels to remain in compliance under its warehouse lines. ClearPoint has incurred losses since its acquisition and is engaged in a remediation plan, as further described in Note 21 herein, that will, at least temporarily, make it probable that ClearPoint will not achieve profitability levels that satisfy its financial covenants. Under those circumstances, ClearPoint likely would request waivers and/or amendments with respect to these covenants. Assuming ClearPoint is unable to right size its business in a manner that achieves profitability, and if the profitability covenants are not amended, it will breach these covenants in future periods. If ClearPoint is unable to comply with the terms of its warehouse credit lines, these lines could be terminated, potentially resulting in the acceleration of all amounts due under the lines.

16. Commitments and Contingencies

Guaranties Relating to Certain Contractual Obligations of ClearPoint

The Company previously disclosed within Note 29 contained within Item 8 of the Company s Annual Report on Form 10-K for the year ended December 31, 2011, separate limited guaranties entered into by the Parent on February 29, 2012, relating to certain contractual obligations of ClearPoint. The guaranties were entered into with Citibank (the Citibank Guaranty) and certain of ClearPoint s lenders (the Curtailment Guaranties).

Under the Citibank Guaranty, the Parent guaranteed payment to Citibank for any required repurchase of loans to the extent conditions regarding documentation, underwriting and similar matters were not resolved favorably by March 30, 2012 (subsequently extended until April 30, 2012), with respect to a certain population of loans purchased by Citibank, of approximately $56.0 million. In connection with the extension granted on March 30, 2012, Citibank and ClearPoint agreed that ClearPoint would repurchase loans in the amount of approximately $2.1 million under a staggered repurchase schedule ending no later than May 3, 2012. ClearPoint has marked these loans at an average price of 88% of par and has arranged for the sale of a majority of these loans to a third party. As of April 30, 2012, there are an additional $2.1 million of these loans required to be repurchased by ClearPoint under a staggered repurchase process. ClearPoint expects its ultimate recovery for these loans through subsequent sale to investors will be at levels at least as favorable as those obtained on the initial $2.1 million repurchased. The repurchases are being made directly by ClearPoint without giving effect to the Parent s guaranty.

The Curtailment Guaranties relate to two pools of loans: approximately $114 million which were financed under the warehouse lines on or about February 29, 2012 (the legacy loans), and new loans funded by the warehouse lines thereafter (the new loans). The Parent guaranteed curtailment payments with respect to these loans, ranging from 5% to 100% of the lesser of, in general, the market value or the principal amount of loans financed under the warehouse lines, depending on the length of time such loans persist on the warehouse lines, and only in the event ClearPoint cannot satisfy those payments itself. As of April 30, 2012, $109.2 million of the legacy loans had been sold to third parties and are therefore no longer on the warehouse lines. The remaining curtailment exposure on $4.8 million of unsold legacy loans is approximately $1.5 million.

The Company s exposure under these guaranties for new loans is mitigated by the progress made under ClearPoint s remediation program, including the implementation of loan origination limits and enhancements to the operational infrastructure to improve the pace at which loans are sold. New loans financed by these warehouse lines as of April 30, 2012 were approximately $62.6 million, as ClearPoint sold $184.8 million of loans during the month of April while expecting to finance new loans of $107.8 million. Given the pace with which ClearPoint is currently selling loans, exposure under these guaranties is significantly diminished.

ClearPoint Acquisition

In connection with the Company s acquisition of ClearPoint on January 3, 2011 the former stockholder of ClearPoint is entitled to receive payments consisting of no more than approximately $2.0 million payable in installments on the first, second and third anniversaries of the closing date, contingent upon the continued employment of the former stockholder. These payments are to be reduced for certain matters for which the Company is indemnified, including losses resulting from any loan losses with respect to loans presented to ClearPoint or originated on or prior to January 3, 2011. As of March 31, 2012 and December 31, 2011, the Company has accrued approximately $0.2 million and $0.8 million, respectively, in relation to this obligation which is recorded within Accrued compensation in the Consolidated Statements of Financial Condition.

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Leases

The Company s headquarters and sales offices, and certain office and communication equipment, are leased under non-cancelable operating leases, certain of which contain renewal options, free rent periods, and escalation clauses. These leases expire at various times through 2025. To the extent the Company is provided tenant improvement allowances funded by the lessor, they are amortized over the initial lease period and serve to reduce rent expense. The Company recognizes the rent expense over the entire lease term on a straight-line basis.

Future minimum annual lease payments, and sublease rental income as of March 31, 2012, are as follows:

(In thousands of dollars)	**Future Minimum Lease Payments**	**Sublease Rental Income**	**Net Lease Payments**
2012 (remaining)	$ 6,899	$ 1,438	$ 5,461
2013	8,626	1,715	6,911
2014	6,929	860	6,069
2015	6,364	502	5,862
2016	5,332		5,332
Thereafter	44,397		44,397
Total	$ 78,547	$ 4,515	$ 74,032

Rental expense, net of sublease rental income, for the three months ended March 31, 2012 and 2011 approximated $1.1 million and $1.3 million, respectively.

Litigation

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policy related to contingencies.

Due to the nature of the Company s business, the Company and its subsidiaries are exposed to risks associated with a variety of legal proceedings and claims. These include litigations, arbitrations and other proceedings initiated by private parties and arising from underwriting, financial advisory, securities trading or other transactional activities, client account activities, mortgage lending and employment matters. Third parties

who assert claims may do so for monetary damages that are substantial, particularly relative to the Company s financial position. The Company has been in the past, and currently is, subject to a variety of claims and litigations arising from its business, most of which it considers to be routine.

The Company and its subsidiaries are also subject to both routine and unscheduled regulatory examinations of their respective businesses and investigations of securities industry practices by governmental agencies and self-regulatory organizations. In recent years, securities and mortgage lending firms have been subject to increased scrutiny and regulatory enforcement activity. Regulatory investigations can result in substantial fines being imposed on the Company and/or its subsidiaries. In the ordinary course of business, the Company and its subsidiaries receive inquiries and subpoenas from the SEC, FINRA, state regulators and other regulatory organizations. The Company does not always know the purpose behind these communications or the status or target of any related investigation. Some of these communications have, in the past, resulted in disciplinary actions which have sometimes included monetary sanctions, and in the Company and/or its subsidiaries being cited for regulatory deficiencies. To date, none of these communications have had a material adverse effect on the Company s business nor does the Company believe that any pending communications are likely to have such an effect. Nevertheless, there can be no assurance that any pending or future communications will not have a material adverse effect on the Company s business. In addition, the Company is also subject to claims by employees alleging discrimination, harassment or wrongful discharge, among other things, and seeking recoupment of compensation claimed (whether for cash or forfeited equity awards), and other damages.

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The Company recognizes a liability in its financial statements with respect to legal proceedings or claims when incurrence of a loss is probable and the amount of loss is reasonably estimable. However, accurately predicting the timing and outcome of legal proceedings and claims, including the amounts of any settlements, judgments or fines, is inherently difficult insofar as it depends on obtaining all of the relevant facts (which is sometimes not feasible) and applying to them often-complex legal principles. It is reasonably possible that the Company incurs losses pertaining to these matters in the form of settlements and/or adverse judgments and incurs legal and other expenses in defending against these matters. Based on currently available information, the Company does not believe that any current litigation, proceeding, claim or other matter to which it is a party or otherwise involved will result in a material loss or otherwise have a material adverse effect on its financial position, results of operations and cash flows, although an adverse development, or an increase in associated legal fees, could be material to the Company s financial results in a particular period, depending in part on the Company s operating results in that period.

Letters of Credit

The Company is contingently liable under bank stand-by letter of credit agreements, executed primarily in connection with office leases totaling $4.9 million at March 31, 2012 and December 31, 2011. These agreements were all collateralized by cash which is included within Other assets within the Consolidated Statements of Financial Condition.

Other

The Company, in the normal course of business, provides guarantees to third parties with respect to the obligations of certain of its subsidiaries.

In the normal course of business, Gleacher Securities guarantees certain service providers, such as clearing and custody agents, trustees, and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. Gleacher Securities also indemnifies some clients against potential losses incurred in the event of non-performance by specified third-party service providers, including subcustodians. The maximum potential amount of future payments that Gleacher Securities could be required to make under these indemnifications cannot be estimated. However, Gleacher Securities has historically made no material payments under these arrangements and believes that it is unlikely it will have to make material payments in the future. Therefore, the Company has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of transactions and occasionally agrees to indemnify them against potential losses caused by the breach of those representations and warranties and occasionally other liabilities. The maximum potential amount of future payments that the Company could be required under these indemnifications cannot be estimated. However, the Company has historically made no material payments under these agreements and believes that it is unlikely it will have to make material payments in the future; therefore it has not recorded any contingent liability in the consolidated financial statements for these

indemnifications.

The Company is required to maintain a deposit at the FICC in connection with the self-clearing activities associated with the Rates business, which began in November 2010. The size of the deposit is subject to change from time to time and is dependent upon the volume of business transacted. At March 31, 2012 and December 31, 2011, the Company had a deposit with the FICC of approximately $17.3 million and $15.2 million, respectively, which is recorded within Receivable from brokers, dealers and clearing organizations in the Company s Consolidated Statements of Financial Condition.

In the ordinary course of business, ClearPoint indemnifies counterparties, including under its loan sale and warehouse line agreements, against potential losses incurred by such parties in connection with particular arrangements. ClearPoint reserves for its exposures to these obligations which is included within Accrued expenses in the Consolidated Statements of Financial Condition. In connection with the Company s acquisition of ClearPoint, the Company is indemnified for any such losses with respect to any loans presented to ClearPoint or originated on or prior to January 3, 2011.

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17. Stockholders   Equity

Stock Repurchase

The Board of Directors of the Company has renewed the Company s share repurchase program and has authorized up to $25 million in repurchases of Company common stock through the date on which the Company publicly releases its results of operations for fiscal 2012. No shares have been repurchased by the Company under this renewed program up through the date of issuance of the accompanying consolidated financial statements.

18. Income Taxes

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policy related to income taxes. During interim periods, the Company calculates and reports an estimated annual effective income tax rate pursuant to ASC 740-270, Income Taxes Interim Reporting.

The Company s effective income tax rate from continuing operations for the three months ended March 31, 2012 of 10.7% resulted in an income tax benefit of approximately $0.6 million. The Company s tax rate differs from the federal statutory tax rate of 35% primarily due to non-deductible discrete tax expense associated with stock compensation shortfalls, partially offset by a state and local income tax benefit.

The Company s effective income tax rate from continuing operations for the three months ended March 31, 2011 of 41.6% resulted in income tax expense of approximately $6.1 million. The effective income tax rate includes a net benefit for discrete items, including a benefit related to the ClearPoint bargain purchase gain which is non-taxable, partially offset by an expense related to a re-measurement of net deferred tax assets due to a change in estimate of our apportioned statutory income tax rate. The effective income tax rate also differs from the federal statutory rate of 35% primarily due to state and local income taxes.

No valuation allowance has been provided on the Company s deferred tax assets as it is more likely than not that they will be realized. Such determination is based upon the Company s net cumulative income position, the Company s ability to carry back net operating losses, as well as the projection of future taxable income.

However, if the Company does not generate sufficient taxable income in 2012, it is possible that the Company may be in a cumulative tax loss position and may need to re-evaluate the realizability of the deferred tax asset. If warranted, the establishment of a valuation allowance could be material, depending on its magnitude, in relation to the Company s operating results during the period in which it is recorded.

In addition, a high concentration of the Company s deferred tax assets is attributable to stock-based compensation. During the three months ended March 31, 2012, the Company offset stock compensation shortfalls against its remaining windfall tax pool within additional paid-in capital, with incremental shortfalls being recorded as an increase to income tax expense. To the extent that stock-based compensation vests prospectively at a share price less than the grant price, the related shortfall will result in an increase in income tax expense as the Company no longer has a cumulative windfall tax pool.

There were no significant changes to the Company s unrecognized tax benefits during the three months ended March 31, 2012.

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19. Stock-Based Compensation Plans

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policy related to stock-based compensation.

The Company recognized stock-based compensation expense related to its various employee and non-employee director stock-based incentive plans of approximately $4.5 million and $5.2 million for the three months ended March 31, 2012 and 2011, respectively.

During the three months ended March 31, 2012, the Company granted approximately 5.8 million shares of restricted stock (RSA), with an average grant date fair value of $1.60 per RSA.

20. Net Capital Requirements

Gleacher Securities is subject to the net capital requirements of Rule 15c3-1 promulgated under the Exchange Act (the Net Capital Rule), as well as the Commodity Futures Trading Commission s net capital requirements (Regulation 1.16), which require the maintenance of a minimum net capital. Gleacher Securities has elected to use the alternative method permitted by the Net Capital Rule, which requires it to maintain a minimum net capital amount equal to the greater of 2% of aggregate debit balances arising from customer transactions (as defined) or $0.25 million, subject to certain adjustments related to market making activities in certain securities. Based upon the activities of Gleacher Securities, its minimum requirement under Regulation 1.16 is the same as under the Net Capital Rule. As of March 31, 2012, Gleacher Securities had net capital, as defined by both the Net Capital Rule and Regulation 1.16, of $54.1 million, which was $53.8 million in excess of the $0.3 million required minimum net capital.

Gleacher Partners, LLC is also subject to the Net Capital Rule. Gleacher Partners, LLC has elected to use the alternative method permitted by the rule, which requires it to maintain a minimum net capital amount of 2% of aggregate debit balances arising from customer transactions as defined or $0.25 million, whichever is greater. As of March 31, 2012, Gleacher Partners, LLC had net capital, as defined by the Net Capital Rule, of $0.8 million, which was $0.5 million in excess of the $0.3 million required minimum net capital.

The Company s ClearPoint subsidiary is subject to net worth requirements, as required by the HUD. At March 31, 2012, ClearPoint s net worth was $15.2 million, which was $14.2 million in excess of the $1.0 million required minimum net worth.

21. Concentrations of Credit and Liquidity Risk

Risks Related to ClearPoint and Other Related Matters

ClearPoint is subject to liquidity constraints resulting from liquidity risk concentrations, as ClearPoint currently relies on a limited number of investors to purchase its originated mortgage loans and a limited number of lenders to finance these activities. If ClearPoint does not sell loans it originates from funds advanced under ClearPoint s mortgage warehouse lines of credit within certain periods of time, the lenders can incrementally curtail, or reduce, such advances. Under these circumstances, ClearPoint would be required to repay the curtailed amounts to the lenders prior to receiving any proceeds from the sale of the loans to investors. Failure of ClearPoint s investors to continue purchasing its loans and/or a slowdown in such purchases could result in additional curtailments as the loans persist on the warehouse lines. This could also decrease available capacity for funding new loans and satisfying ClearPoint s unfunded loan commitments.

As previously disclosed within Note 23 contained within Item 8 of the Company s Annual Report on Form 10-K for the year ended December 31, 2011, ClearPoint had experienced liquidity constraints due to curtailment payments, which were caused by the rapid expansion of ClearPoint s business, coupled with an unanticipated slow-down in loan purchases by one of ClearPoint s principal loan purchasers. Curtailment exposure has been mitigated by actions taken by ClearPoint, including the implementation of loan origination limits and enhancements to its operational infrastructure, which have improved the pace at which loans are cleared. During the month of April

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2012 ClearPoint sold $184.8 million of loans while expecting to finance $107.8 million of loans. Given the pace with which ClearPoint is currently selling loans, its exposure to curtailment payments is significantly diminished.

As further discussed in Note 15 Secured Borrowings, one of ClearPoint s lenders elected not to renew a warehouse line which was scheduled to expire on March 10, 2012. The discretionary facility instead expired on April 1, 2012. As of April 30, 2012, all advances under this line were paid in full. In addition, ClearPoint s remaining warehouse lines, both of which expire in September 2012, are uncommitted and one, in the amount of $100 million (subsequently reduced as of April 30, 2012 to $75.0 million), can be terminated at will by the lender on 90-days notice. Failure of the lenders to renew the warehouse lines upon expiration and/or not provide financing on the uncommitted portions of the lines would adversely impact ClearPoint s ability to conduct business. If ClearPoint is unable to replace the borrowing capacity when the warehouse lines expire or the lenders do not continue to fund requests, it may be required to reduce its loan origination activities and may not be able to satisfy its unfunded loan commitments.

ClearPoint also has restructured its senior management and continues to focus on other elements of its remediation program, including increasing the number of loan purchasers with which ClearPoint transacts, and pursuing additional warehouse lenders and loan distribution channels. If ClearPoint is unable to execute on these strategies and/or other events occur which reduce its ability to obtain continued financing, these matters ultimately could have a material and adverse effect on the Company s financial position, results of operations and/or cash flows.

Risks Related to the Company s Broker-Dealer Operations

Concentrations of credit risk can be affected by changes in political, industry, or economic factors. The Company s most significant industry credit concentration is with financial institutions. Financial institutions include other brokers and dealers, commercial banks, finance companies, insurance companies and investment companies. This concentration arises in the normal course of the Company s brokerage, trading, financing, and underwriting activities. To reduce the potential for concentration of risk, credit exposures are monitored in light of changing counterparty and market conditions.

The Company may also purchase securities that are individually significant positions within its inventory. Should the Company find it necessary to sell such a security, it may not be able to realize the full carrying value of the security due to the significance of the position sold.

The majority of securities transactions of customers of the Company s broker-dealer subsidiary, Gleacher Securities, are cleared through third parties under clearing agreements. Under these agreements, the clearing agents settle customer securities transactions, collect margin receivables related to these transactions, monitor the credit standing and required margin levels related to these customers and, pursuant to margin guidelines, require the customer to deposit additional collateral with them or to reduce positions, if necessary.

Refer to Note 16 within the section labeled Other for additional information regarding credit risks of the Company.

22. Fair Value of Financial Instruments

Substantially all of the financial instruments of the Company are reported on the Consolidated Statements of Financial Condition at market or fair value, or at carrying amounts that approximate fair value, because of their short-term nature, with the exception of subordinated debt. Financial instruments recorded at carrying amounts approximating fair value consist largely of Receivables from and Payables to brokers, dealer and clearing organizations, related parties and others, Securities purchased under agreements to resell and Securities sold under agreements to repurchase. The carrying value of the subordinated debt at March 31, 2012 and December 31, 2011 approximated fair value based on current rates available.

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23. Restructuring

On August 22, 2011, the Board of Directors of the Company approved a plan to exit the Equities business, effective immediately. The principal reasons for this decision were that the Equities division was an underperforming non-core asset, and that its closure would allow the Company to improve focus and invest in its core competencies. Exiting the Equities business impacted 62 employees.

The following table summarizes the changes in the Company s liability related to this restructuring for the three months ended March 31, 2012:

(In thousands)		
Balance January 1, 2012	$	1,427
Restructuring expense		(162)
- Less: Non-cash charges		29
Payments for severance		
Payments for real estate		(161)
Payments for third party vendor contracts		(308)
Payments for legal and other related costs		
Restructuring reserve March 31, 2012	$	825

The restructuring reserve of $0.8 million as of March 31, 2012 is included within Accrued expenses within the Consolidated Statements of Financial Condition. The majority of this remaining reserve pertains to third party vendor contracts. Payments are expected to be substantially completed during the year ended December 31, 2012.

24. Discontinued Operations

The Company has classified the results of the Equities division as discontinued operations due to its exiting this business on August 22, 2011.

Amounts reflected in the Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011 related to the Equities division are presented in the following table.

	March 31,	
(In thousands)	**2012**	**2011**

Net revenues	$ 37	$ 5,271
Total expenses (excluding interest expense)	73	(7,733)
Income/(loss) from discontinued operations before income taxes	110	(2,462)
Income tax expense/(benefit)	78	(1,068)
Income/(loss) from discontinued operations, net of taxes	$ 32	$ (1,394)

25. Segment Analysis

Currently, our business model operates through the following four business segments:

- *MBS/ABS & Rates* This division provides sales, trading, research and advisory services on a wide range of mortgage and asset-backed securities, U.S. Treasury and government agency securities, structured products such as CLOs and CDOs, whole loans, and other securities. Revenues are generated from spreads on principal transactions executed to facilitate trades for clients. Revenues are also generated from changes in fair value and interest income on securities held in inventory.

- *Corporate Credit* This division provides analysis, sales and trading on a wide range of debt securities including bank debt and loans, investment grade debt, high-yield debt, treasuries, convertibles, distressed debt, preferred debt, emerging market debt and reorganization equities to corporate and institutional investor clients. The division also provides trade execution

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services, liability management, corporate debt repurchase programs and new issue distributions. Revenues are generated primarily from spreads on riskless principal transactions, and to a lesser extent, principal trading and commissions on trades executed on behalf of clients. In addition, revenues are also generated on a smaller scale from interest income on securities held in inventory.

• *Investment Banking* This division provides financial advisory and capital raising services in connection with mergers, acquisitions and other strategic matters. The division is being realigned around existing M&A expertise, expanded capital markets capabilities and key industry verticals, including real estate, financial services, aerospace and defense, technology, media and telecom, general industrial and financial sponsor coverage.

• *ClearPoint* This division originates, processes and underwrites single and multi-family residential mortgage loans within 45 states. The loans are underwritten using standards prescribed by conventional mortgage lenders and loan buyers such as the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. Revenues are generated primarily from the sale of the residential mortgage loans with servicing released.

The Company s sales and trading revenues consist of revenues derived from commissions, principal transactions and other fee related revenues. Investment banking consists of revenues derived from capital raising and financial advisory services. Investment gains/(losses) primarily reflect gains and losses on the Company s FATV investment.

Prior period results have been revised to reclassify investment banking revenues and related expenses into the segments within which they are generated, as this is how the segments are currently evaluated. Such revenues were all previously presented within the Investment Banking reportable segment. In addition, prior period ClearPoint results, which were previously presented as a component of Other, have now been reclassified and separately disclosed for comparative purposes to current period results. Prior period amounts were previously reported in Other due to the amount of ClearPoint s net revenues in relation to total net revenues.

The Equities segment results have been reclassified as a discontinued operation and are no longer reported below. In connection with this development, any previously reported intangible asset amortization related to the Equities reporting unit which was previously included within Other has also been reclassified within discontinued operations.

Items of revenues and expenses not allocated to one of the reportable segments are aggregated under the caption Other in the table below. Included within Other are investment gains/(losses) and fees related to the Company s investment in and management of FATV. In addition, Other reflects expenses not directly associated with specific reportable segments, including costs related to corporate overhead and support, such as various fees associated with financing, legal and settlement expenses and amortization of intangible assets from business acquisitions not

reported within discontinued operations.

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Information concerning operations in these reportable segments are as follows:

(In thousands of dollars)	**Three Months Ended March 31, 2012**	**2011**
Net revenues		
MBS/ABS & Rates		
Sales and trading	$ 8,004	$ 40,751
Investment banking	237	172
Interest income	16,427	14,289
Interest expense	(4,337)	(3,506)
Total MBS/ABS & Rates	20,331	51,706
Corporate Credit		
Sales and trading	19,777	17,639
Investment banking	1,907	2,507
Interest income	132	462
Interest expense	(99)	(144)
Total Corporate Credit	21,717	20,464
Investment Banking		